

Financial Services Practice

# The stable door opens: How tokenized cash enables next-gen payments

Stablecoins are transforming payments globally, and tailwinds may cause a material shift across the payments industry in 2025 for which incumbents and disruptors alike must make urgent preparations.

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**The ability to settle payments** globally in a fast, secure, and cost-effective way is being transformed by the proliferation of tokenized cash using blockchain technology. Based on multiple tailwinds, 2025 may witness a material shift across the payments industry, for which both incumbents and disruptors need to make urgent preparations. Stablecoins, a form of digital cash issued as tokens on a blockchain, have emerged as a global alternative to conventional payments infrastructure. Currently issued mostly in US dollars, stablecoin circulation has doubled over the past 18 months but still facilitates only about \$30 billion of transactions daily—less than 1 percent of global money flows.

Stablecoin advocates say that the technology can transcend banking hours and global borders, offering substantial improvements on current payment infrastructure, including speed, cost, transparency, availability, and increased inclusion of those who are underserved by the banking system. Today, however, stablecoins are employed mostly as an intermediary, requiring abundant liquidity and off-ramps (venues for exchanging digital assets) to traditional fiat currency.

True scaling of stablecoins will require a shift in the prevailing paradigm that requires most transactions to settle in local currency. If and when the majority of customers choose to retain their funds in stablecoins, this could have far-reaching consequences for the demand for underlying reserves and implications for the deposit funding and revenue models of financial institutions. Since major use cases include cross-border payments and remittances, trading and capital market settlement, and treasury and cash management, the implications of such a funding shift would be global.

In this article, we assess the extent to which stablecoins are challenging the incumbent payment infrastructure, discuss the benefits and risks of reliance on stablecoins for global payments, and address why 2025 could be an inflection point for the technology. We then identify the steps that financial institutions should consider to participate in the development of stablecoins. Finally, we describe

the signs of accelerating adoption of stablecoins, recognizing that, for many financial institutions, it can take time to implement new systems.

## Tokenized value today

Over the past few years, central banks and financial institutions have created several types of tokenized money.<sup>1</sup> These include the following:

- **Central bank digital currencies (CBDCs).** CBDC is the official digital version of a nation's fiat currency. CBDC is legal tender, backed by a nation's central bank and issued on a centralized or permissioned (not publicly accessible) ledger. CBDCs exist for both retail (public) and wholesale use (for business-to-business settlement). Examples include the People's Bank of China's e-CNY and the Eastern Caribbean Central Bank's DCash (EC Dollar).
- **Stablecoins.** Stablecoins are tokenized cash issued by private institutions on public blockchains (for example, Ethereum), pegged to fiat currency, and backed by audited reserves. Unlike CBDCs, stablecoins are not officially legal tender and have received varying levels of regulatory scrutiny and oversight. Examples include Tether (USDT), Circle (USDC), and EUR CoinVertible (EURCV).
- **Bank-issued tokenized deposits.** These are tokenized representations of customer deposits held in bank accounts, backed one-to-one by funds held by the issuing institution. These tokens are not intended to be legal tender but are typically issued on permissioned blockchains to enable real-time payments and settlements within or between institutions. One example is JPMorgan's JPM Coin.

Common to all three of these types of money is the ability to clear good funds and settle a payment almost instantly, requiring verification of existing funds and confirmation of sending and receiving entities before a transaction can be initiated. Thanks to digital compliance processes and smart

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<sup>1</sup> "What is tokenization?," McKinsey, July 25, 2024.

contracts, these payments could be automatically checked for anti-money laundering (AML) and know-your-customer (KYC) issues and screened for sanctioned entities via on-chain analytics services and auto-executing instructions.<sup>2</sup>

These types of money represent a direct challenge to traditional global payments rails, such as utilizing the Swift payment messaging network, using correspondent banking, or employing wire transfers such as Fedwire. The majority of these legacy payment networks can take one to five business days to complete a transaction because they rely on multiple intermediaries, operating in different business time zones and employing periodic batch-based processing. Furthermore, most payments are required to undergo manual or only semiautomated regulatory checks, such as AML, KYC, and sanctions screening.

Despite these challenges—and because of attendant value drivers—the existing legacy payments infrastructure processes between \$5 trillion and \$7 trillion in global money transfers daily (including institutional, commercial, and consumer money transfers), according to data from Swift and the Bank for International Settlements.<sup>3</sup>

By comparison, on-chain data—transactions verified and recorded on a blockchain—suggest that about \$250 billion of stablecoins have been issued, including \$155 billion by Tether and \$60 billion by Circle.<sup>4</sup> These facilitate \$20 billion to \$30 billion of real on-chain payment transactions per day, split between remittances and settlements.<sup>5</sup> Therefore, despite much publicity, stablecoins process less than 1 percent of the global daily money transfer volume.

Based on current utility, some may argue that stablecoins pose little to no threat to incumbent payment networks. However, the volume of stablecoin transactions has grown organically by an order of magnitude over the past four years (Exhibit 1).

If that rate of growth were to continue, stablecoin transactions could surpass legacy payment volumes in less than a decade—and potentially sooner, based on expanding applications. The ability for tokenized cash to operate continuously, satisfy demand for instant settlement, and offer improved operational risk controls solves real-world pain points and offers a compelling value proposition to end users that could accelerate adoption.

On that basis, any institution engaged in payments activity today may want to begin preparations for engaging with tokenized cash, while institutions whose business relies on legacy technology should actively develop capabilities to support this new payment method.

## Why stablecoins have grown in popularity

The current wave of modernization of payments infrastructure was born out of a growing need to address perennial problems. These include the following:

- **Speed.** Delays in settlement of one to three business days are common when using traditional payment rails, especially when sending payments cross-border.
- **Cost.** Traditional payment processing typically involves multiple intermediaries (for example, correspondent banks and clearing houses); as a result, this process can generate multiple fees.
- **Transparency.** Complex legacy infrastructure can obscure the routing and status of payments, especially during international transfers.
- **Availability.** Payment systems reliant on the traditional banking system usually only operate during business hours, which do not include weekends and holidays.

<sup>2</sup> Smart contracts are pieces of code that can be combined with an individual token to program certain conditional activities such as escrow payments.

<sup>3</sup> Mathias Drehmann and Vladyslav Sushko, "The global foreign exchange market in a higher-volatility environment," BIS, December 5, 2022.

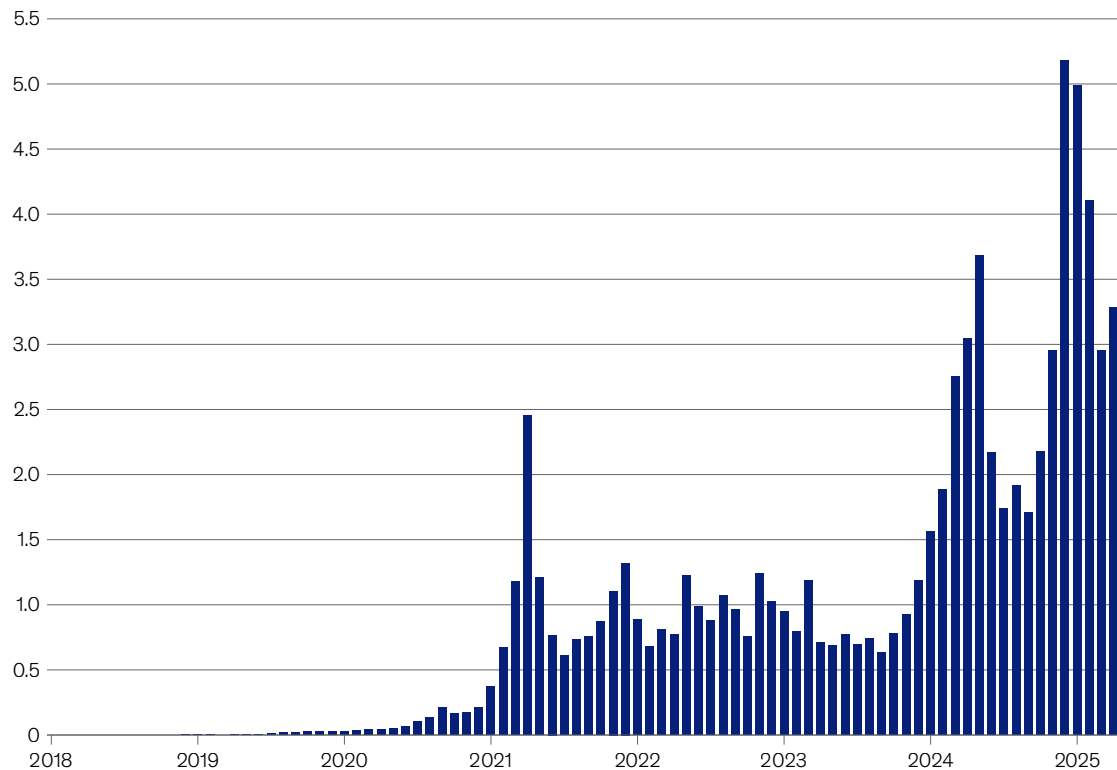
<sup>4</sup> "Stablecoins," Messari, accessed July 2, 2025; "Stablecoins," RWA.xyz, accessed July 2, 2025; "Top stablecoins coins today by market cap," *Forbes*, accessed July 2, 2025; "Stablecoin supply," Visa, accessed July 2, 2025.

<sup>5</sup> "Stablecoin transactions," Visa, accessed July 2, 2025.

## Exhibit 1

**Stablecoin transaction volume has risen sharply over the past two years, exceeding \$27 trillion per year.**

US dollar–pegged stablecoin<sup>1</sup> transaction volume, \$ trillion



<sup>1</sup>Includes the following stablecoins: USDT, USDC, DAI, PYUSD, FDUSD, USDe, and USDTb.

Source: Artemis; "Stablecoin surge: Here's why reserve-backed cryptocurrencies are on the rise," World Economic Forum, March 26, 2025

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- **Inclusion.** Since much of the traditional payments infrastructure relies on banks, many people are underserved or excluded by KYC regulations and face other access hurdles such as the need for a state-issued ID or multiple proofs of residence.

In addition, the creation of domestic payment systems (often unique to continents and even to individual markets) has led to many siloed systems and proprietary networks, making true global integration of payments difficult to achieve (Exhibit 2).

On top of these perennial issues, there has been a proliferation of needs, including merchant

settlements, business-to-business payments, cross-border payments, retail remittances, and automated payments (for example, from government). As a result, demand has grown in the past decade for more-responsive, real-time, low-cost, secure, and inclusive global payment solutions.

Some incumbents historically may have hesitated to pursue innovative payment systems in part because they might disrupt existing revenue lines. Competition among financial institutions has stymied efforts to collaborate, while a lack of standardization and consistent international regulations has prevented the emergence of a modern, global system. However, we believe such

## Exhibit 2

### Stablecoins offer transformative capabilities that address key limitations of legacy payment systems.

	Legacy payment rails	Stablecoin
<b>Speed</b>	<ul style="list-style-type: none"> <li>1–5 business days</li> </ul>	<ul style="list-style-type: none"> <li>Nearly instant settlement</li> </ul>
<b>Cost</b>	<ul style="list-style-type: none"> <li>International wire: \$15–\$50 per transaction</li> <li>Automated clearing house: \$0.2–\$1.5 per transaction</li> <li>Credit card: 1.5%–3.5% of transaction</li> </ul>	<ul style="list-style-type: none"> <li>&lt;\$0.1 per transaction</li> </ul>
<b>Cross-border</b>	<ul style="list-style-type: none"> <li>Relies on correspondent or domestic banking system; additional foreign transaction (FX) fees</li> </ul>	<ul style="list-style-type: none"> <li>Borderless, minimal, or nonexistent FX fees</li> </ul>
<b>Automation and programmability</b>	<ul style="list-style-type: none"> <li>Manual interventions, settlement frictions</li> <li>Limited API and programmability capabilities</li> </ul>	<ul style="list-style-type: none"> <li>Fully digital, smart-contract-enabled programmability</li> </ul>
<b>Security</b>	<ul style="list-style-type: none"> <li>Established banking standards</li> <li>Employs technology to mitigate fraud risk</li> </ul>	<ul style="list-style-type: none"> <li>Cryptographically secure and irreversible but catastrophically vulnerable to wallet or key theft risks</li> </ul>
<b>Transparency</b>	<ul style="list-style-type: none"> <li>Limited visibility into transaction steps</li> </ul>	<ul style="list-style-type: none"> <li>Fully transparent transaction reporting on blockchain</li> </ul>
<b>Settlement risks</b>	<ul style="list-style-type: none"> <li>Intermediary or correspondent dependency risks</li> </ul>	<ul style="list-style-type: none"> <li>Peer-to-peer, with no intermediary risks</li> </ul>
<b>Availability</b>	<ul style="list-style-type: none"> <li>Banking hours or days constraints</li> </ul>	<ul style="list-style-type: none"> <li>Fully operational 24/7/365</li> </ul>

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incumbents should continue to innovate, even if this might compete with existing revenue streams. Value drivers of existing legacy payment systems, such as ubiquity of acceptance and consumer protections, suggest they are not about to disappear.

Stablecoins have now become a genuine contender to satisfy new payment needs, achieving the first true market fit for (non-crypto) digital assets.<sup>6</sup> In particular, stablecoin-based payments are typically nearly instant, incur lower costs, increase end-to-end traceability and visibility on-chain, offer nearly 100 percent uptime year-round, and expand access to payments to everyone through wallet-based rather than account-based infrastructure (Exhibit 3).<sup>7</sup>

To date, private enterprises have issued the vast majority of stablecoins on a multitude of

blockchains. This may appear to replicate historical challenges of siloed proprietary networks, but mechanisms have been built that enable the migration of value across chains through so-called bridges (automated escrowing and reissuance of “wrapped” tokens on different blockchains). These enable the cost-effective and rapid transfer of value by stablecoins to anyone in the world with an online device.

By resolving potential interoperability challenges and creating global access, stablecoin use has expanded rapidly. It is estimated that by the end of the first quarter of 2025, the following was true:

- Volume used for remittances reached 3 percent of the \$200 trillion in total global cross-border payments.<sup>8</sup>

<sup>6</sup> “From ripples to waves: The transformational power of tokenizing assets,” McKinsey, June 20, 2024.

<sup>7</sup> Stablecoins can be sent between two blockchain-based wallet addresses without their owners opening an account at a financial institution.

<sup>8</sup> Chris Harmse, “Blockchain in cross-border payments: 2025 guide,” BVNK, updated March 2025.



### Exhibit 3

## Consumers, merchants, and institutions can capitalize on the advantages of stablecoins through a variety of applications.

### Stablecoin use cases for ecosystem players, nonexhaustive

Consumer and retail	Enterprise and merchant	Institutional and infrastructure
<ul style="list-style-type: none"> <li>• Peer-to-peer instant transfers</li> <li>• Cross-border payments</li> <li>• Merchant payments and checkout</li> <li>• Loyalty programs</li> <li>• Crypto yields and savings</li> <li>• Programmable lending</li> </ul>	<ul style="list-style-type: none"> <li>• B2B payments</li> <li>• Embedded finance for marketplaces</li> <li>• Cash management tools</li> <li>• Financing for small and medium-size businesses</li> </ul>	<ul style="list-style-type: none"> <li>• Stablecoin-as-a-service</li> <li>• Real-world asset tokenization</li> <li>• Interbank settlement</li> <li>• On-chain foreign transactions</li> <li>• DeFi (decentralized finance) lending</li> <li>• Real estate loans</li> </ul>



**The business case and impact of stablecoin use cases vary, requiring companies to thoroughly assess and prioritize initiatives in their road map.**

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- Volume employed in capital markets (primarily exchanged for Treasury bills but also settlement in the purchase of bonds, funds, and other securities) achieved just under 1 percent of global capital markets transactions.
- Volume used in crypto purchases totaled nearly \$20 trillion—the remainder of the \$27 trillion in global trading volume in 2024.<sup>9</sup>

Despite such improvements in accessibility, some payment transaction costs remain, including for risk and compliance. Indeed, in a regulated, compliant environment, legacy financial institutions will still incur material costs of transaction monitoring (for example, related to know your transaction, KYC, and AML), even as the industry migrates to token-based automated compliance.

Moreover, the receipt of deposits as stablecoins could create funding challenges for many institutions. Historically, financial institutions have relied on deposits for generating healthy margins through investments in market assets and credit activity. In the case of existing stablecoins, those

deposits are held by the issuers (for example, Circle and Tether), while vehicles for stablecoin investment (for example, tokenized money market funds) are as yet scarce and immature.

### 2025 could be an inflection point for stablecoins

2025 may be an important year in the growth of tokenized cash, faced with fewer headwinds from skeptics of cryptocurrencies and multiple tailwinds linked to more favorable regulation, improving security technology, and experimentation.

### Improving regulatory clarity in major jurisdictions

The regulation of stablecoins has evolved rapidly over the past few years as governments and financial institutions have recognized their growing influence on global finance. While the emergence of early stablecoins such as Tether (2014) went largely unnoticed, the attempt by Facebook (Meta) to launch the Libra stablecoin based on a basket of fiat currencies prompted a series of countermeasures by the US government and may have initiated assessments by regulators such as the Securities

<sup>9</sup> Spencer Feingold, "Stablecoin surge: Here's why reserve-backed cryptocurrencies are on the rise," World Economic Forum, updated June 3, 2025.

and Exchange Commission, the Office of the Comptroller of the Currency, and the Financial Crimes Enforcement Network.<sup>10</sup> Thereafter, the President's Working Group on Financial Markets recommended in 2021 that stablecoin issuers be regulated and their reserves audited.

In 2023, the first wide-ranging regulatory frameworks were introduced, most notably the Markets in Crypto Assets Regulation (MiCA) rules for stablecoins in the European Union, the Financial Services and Markets Act in the United Kingdom, and similar licensing measures in Hong Kong, Japan, and Singapore. As of May 2025, multiple pieces of legislation are in progress globally that will seek to ensure stable and secure operation of tokenized cash, covering reserves, disclosures, AML and KYC compliance, and proper licensing. One example is the US Guiding and Establishing National Innovation for U.S. Stablecoins (GENIUS) Act of 2025, which passed the Senate in June. The legislation stipulates conditions for reserves, stability, and oversight that enforce the validity and utility of stablecoins as digital cash.

Further, the recent supportive posture of the US government for digital assets is opening the door for Web3 companies to apply for a banking license.<sup>11</sup> Major exchanges such as Coinbase and BitGo, as well as stablecoin issuers such as Circle, may be able to acquire a banking license and thereby offer payment services directly through the existing banking infrastructure.

#### **Improving technology solutions**

In the past few years, the infrastructure for tokenized cash, including blockchain, wallets, and on-chain analytics, has matured, making the ecosystem more secure, scalable, and user-friendly.<sup>12</sup>

Blockchains such as Avalanche, Ethereum, and Solana have improved performance through Layer 2 scaling solutions (for example, Arbitrum and Optimism) and faster consensus mechanisms.<sup>13</sup>

These enhancements have reduced network congestion and fees while improving utility for real-world applications such as instant payments.

Wallet technology has also evolved. Institutional-grade wallets now feature multiparty computation and hardware-based key management that have reduced the risk of compromise of private keys (under the appropriate governance of human behavior). Multiple commercial custody solutions have become available, denoted in some jurisdictions as "qualified custodians" with strong regulatory oversight. Meanwhile, consumer wallets such as Ledger and MetaMask have improved user protection and enhanced recovery options, making the experience more secure and familiar for end users.

On-chain analytics have advanced from basic transaction tracking to more sophisticated behavioral and risk analysis. Companies such as Chainalysis, Elliptic, and TRM Labs provide real-time transaction surveillance, wallet attribution, and AML screening tools for use by regulators, law enforcement, and financial institutions.

Together, these advancements have transformed the underlying technology for tokenized payments from an experimental environment to a more robust financial infrastructure capable of supporting mainstream payments-based use cases.

#### **Growing circulation of stablecoins and demand for yield-bearing cash equivalents**

In light of this maturing infrastructure, the circulation of stablecoins is growing. The total value of issued stablecoins has doubled to \$250 billion today from \$120 billion 18 months ago, and it is forecast to reach more than \$400 billion by year-end and \$2 trillion by 2028.<sup>14</sup>

Parallel to this growth, a number of yield-bearing, cash-equivalent tokens have been issued, typically representing investment in underlying short-duration government securities, including the

<sup>10</sup> "Libra cryptocurrency," Corporate Finance Institute, accessed July 3, 2025.

<sup>11</sup> Web3 is a term used to describe the next iteration of the internet, one that is built on blockchain technology and is communally controlled by its users.

<sup>12</sup> "What is Web3?," McKinsey, October 10, 2023.

<sup>13</sup> Off-chain protocols built on top of blockchains designed to increase transactions speed and reduce costs while still periodically writing data to the main chain for security and finality.

<sup>14</sup> Matt Hougans and Ryan Rasmussen, "The year ahead: 10 crypto predictions for 2025," Bitwise, December 10, 2024; Muyao Shen, "Stablecoin sector may reach \$2 trillion: Standard Chartered," Bloomberg, April 15, 2025.

# The total value of issued stablecoins has doubled to \$250 billion today from \$120 billion 18 months ago, and it is forecast to reach more than \$400 billion by year-end and \$2 trillion by 2028.

BlackRock USD Institutional Digital Liquidity Fund (\$2.9 billion); the Franklin OnChain U.S. Government Money Fund—with shares represented by the BENJI token—(\$0.8 billion); and the Ondo Short-Term US Treasuries Fund (\$0.7 billion).

These tokens are not designated as stablecoins but are denominated in dollars, creating the potential for a new payments vehicle that can be used at point of sale but earns the user real-time returns.

## Growing demand from practical applications

Demand for stablecoins comes principally from three sources:

- **Settlement of crypto trading.** Stablecoins act as the base pairs in the majority of crypto trading, lending, and yield farming.<sup>15</sup> Estimates by the US Federal Reserve Board indicate that more than 80 percent of trade volume on major centralized crypto exchanges involves stablecoins as part of the traded pair.<sup>16</sup> Therefore, as crypto trading continues to grow, there may be increasing demand for stablecoins.
- **Cross-border payments and remittances.** Where permitted by prevailing regulation, stablecoins offer a faster and cheaper alternative to traditional remittance rails. This is especially important in corridors supporting remittances by migrant workers and in solving

perennial payment challenges experienced by small businesses.

- **Emerging-market reserve currency.** In countries historically suffering currency instability, dollar-backed stablecoins offer a hedge against inflation and are valued for secure peer-to-peer payments.

In addition, we are seeing the emergence of use cases for tokenized cash in institutional settlement and treasury management, offering faster and more-liquid cash management solutions. For example, deposit funding can benefit from the real-time availability of deposits, with the possibility of earning intraday yield from investment in assets such as short-dated US Treasury bills and repurchase agreements (repos). In such a situation, the underlying cash reserves are held by the issuer, but the investment assets are held by the treasury manager.

## Experimentation and scaling by large financial institutions

As the use of tokenized cash has accelerated, large financial institutions are participating more actively. Instances include JPMorgan's JPM Coin, which uses tokenized bank deposits for real-time, on-chain settlement between institutional clients (totaling more than \$1 billion daily<sup>17</sup>); the Canton Network,<sup>18</sup> a system of blockchain-based asset platforms experimenting with tokenized deposits and cash (for

<sup>15</sup> Earning rewards—typically in the form of digital asset tokens—by providing liquidity or staking assets in decentralized finance protocols to generate passive income from transaction fees or incentives.

<sup>16</sup> Christopher J. Waller, "Reflections on a maturing stablecoin market," Board of Governors of the Federal Reserve System, February 12, 2025.

<sup>17</sup> Suvashree Ghosh, "JPMorgan says JPM coin now handles \$1 billion transactions daily," Bloomberg, October 26, 2023.

<sup>18</sup> "Explore the Canton Network ecosystem," Canton, accessed July 3, 2025.



example, Citibank, Goldman Sachs, and UBS); and banks tokenizing commercial bank money, which is used for real-time movement of value between internal ledgers and regions, especially for intraday liquidity positioning (for example, Partior).

There are also interbank and central bank experiments, including the following:

- **Project Guardian**, which is exploring tokenized cash for cross-border foreign exchange and securities trades (Monetary Authority of Singapore with DBS, HSBC, and Standard Chartered)<sup>19</sup>
- **Project mBridge**, which is using tokenized central bank money for cross-border settlement (central banks in China, Hong Kong SAR, Thailand, and the United Arab Emirates)<sup>20</sup>
- **Project Helvetia**, which is experimenting with tokenized central bank money to settle tokenized financial assets (Bank for International Settlements, SIX, and the Swiss National Bank)<sup>21</sup>

## Lessons learned from early experiments

Experimentation with stablecoins has grown in the past two to three years. Such pilots are scaling when they achieve some or all of the following success factors:

- **Provable reserves.** Demonstrating that the issued stablecoins remain fully reserved by cash and cash equivalents ensures their stability and encourages holding longer term. For example, Circle's USDC is reserved by about 85 percent short-term US Treasuries or repos, with the remainder held in cash for immediate liquidity needs.
- **A seamless interface.** Minimizing friction when moving value between fiat currency and

stablecoins makes it more possible to treat each as equivalent to the other. On many crypto exchanges today, stablecoins are offered one-to-one in exchange for cash with a single click. Meanwhile, enterprise payment platforms such as SAP and PayPal now offer native stablecoins to their business customers.<sup>22</sup>

- **An increase in speed and reduction in cost.** Choosing issuance and transaction of stablecoins on low-latency Layer 1 and 2 blockchains (scaling solutions to improve processing speeds) reinforces their value proposition as a lower-cost alternative. For example, stablecoins issued on Solana currently take only a second or two to appear in the destination wallet (and 30 seconds to become irreversible) at a fee of usually less than \$0.01.<sup>23</sup>
- **The resolution of real-world problems.** Employing stablecoins to resolve real-world problems, such as efficient business-to-business payments, low-cost remittances, and investable stable reserve currency, improves their relevance. For example, Purpose Bound Money, a protocol for the use of digital money, takes advantage of the programmability of stablecoins to ensure they are only spent in prescribed jurisdictions, merchants, and transaction types.<sup>24</sup>
- **Sustainable adoption.** Given that the circulating volumes of the two largest stablecoins today (USDC and USDT) grow faster in one month than the combined value of all other stablecoins, having abundant liquidity is key to continued adoption and scaling. Both stablecoins have a current daily velocity of around 0.15–0.25 and experience deep liquidity in multiple countries.<sup>25</sup>
- **Economic benefits.** Delivering economic value to all participants is essential for stablecoin adoption. For example, holding USDC on

<sup>19</sup> "Project Guardian," Monetary Authority of Singapore, July 3, 2025.

<sup>20</sup> "Project mBridge reached minimum viable product stage," BIS, updated November 11, 2024.

<sup>21</sup> "Project Helvetia: A multi-phase investigation on the settlement of tokenised assets in central bank money," BIS, accessed July 3, 2025.

<sup>22</sup> "SAP Digital Currency Hub," SAP, accessed July 3, 2025; "Can I purchase crypto with my business account?," PayPal, accessed July 3, 2025.

<sup>23</sup> "Solana key metrics," Dune, updated February 2025; Mustafa Bedawala and Arjuna Wijeyekoon, "A deep dive on Solana, a high performance blockchain network," Visa, September 11, 2023.

<sup>24</sup> *Purpose Bound Money (PBM) technical whitepaper*, Monetary Authority of Singapore, June 20, 2023.

<sup>25</sup> Stablecoin velocity is the frequency at which a unit of stablecoin changes hands within a given period.

# At the current rate of growth, daily transaction volumes using stablecoins could reach at least \$250 billion in the next three years.

Coinbase allows users to earn 4.1 percent (annual percentage yield) and has led to deposits of \$12 billion.<sup>26</sup> In contrast, the MiCA regulations in Europe prevent issuers from passing such yield to depositors; by comparison, the largest stablecoin in Europe has a circulating supply today of just €200 million.

## Assessing the risks of stablecoins

The use of stablecoins is not without risk. While regulatory frameworks such as the GENIUS Act will seek to establish clear requirements for reserves and therefore stability, stablecoins currently operate outside such requirements. Some have been subject to occasional de-pegging from their unit of currency, mostly triggered by uncertainty of their reserves.

In addition, like any digital currency, safekeeping requires care to protect private keys from theft. While many solutions offering secure digital asset custody exist, the biggest risk is compromise of the access point to such custody solutions. Sophisticated social engineering efforts have created notable vulnerabilities (for example, compromised passwords), while institutions must also care for bad-actor risk with appropriate corporate governance.

Most often overlooked is the lack of any legal entitlement of the bearer to instant redemption access to underlying deposits. Stablecoin holders do not own or hold a legal claim to the underlying assets, despite redemption assurances from issuers. Although the stablecoin itself may remain securely on a blockchain, in the event of a

bankruptcy, holders may be treated as unsecured creditors and not have full rights of access to reserves. Without legal protections (or at least legal precedent), stablecoin holders rely on the trust and integrity of the private issuer without the certainty of protection from a central bank or government.

While there are multiple examples of stablecoin experiments scaling, there have been many more attempts by central banks to pilot digital currencies and stablecoins that have not succeeded, due to the absence of a compelling value proposition.

## How and why to prepare for stablecoin use

At the current rate of growth, daily transaction volumes using stablecoins could reach at least \$250 billion in the next three years, greater than the current volume of payments processed by major card networks. Volume could be substantially greater for certain use cases that offer substantial improvement over legacy payments technology (for example, business-to-business cross-border transactions).

To take advantage of the stablecoin opportunity, financial institutions should first decide which role or roles to assume in the digital ecosystem.

## How financial institutions could respond to the threat from stablecoins

In our experience, financial institutions are especially concerned about the future of bank deposits. They face a dilemma. If they do not issue a stablecoin, they cannot hold the deposits that constitute their reserves; even if they do issue a stablecoin, current regulations require holding

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<sup>26</sup> "Circle IPO: A rosy future weighed down by Coinbase deal," Ledger Insights, April 2, 2025.

100 percent cash-equivalent reserves (that could undermine their fractional-reserve lending model).

Conversely, the adoption case for a stablecoin issued by a single bank is not strong and is challenged further by the fragmentation this could create in the digital ecosystem. Options include participating through the formation of a consortium in which participants all issue the same stablecoin but with segregated reserves; collaborating with a global issuer that offers a universal stablecoin with integrated reserve management; or relying on the issuer depositing funds back with the financial institution equal to the value of stablecoins being issued for them. These approaches are, as of yet, largely untested.

How financial institutions could participate in the stablecoin infrastructure is likely to be determined by their size and segment of focus. For example, top-tier banks with existing large payments flows are already innovating with stablecoins to defend their existing positions. Tier-two banks will likely collaborate through consortiums to achieve scale with a common stablecoin while retaining their deposits. Regional banks, credit unions, and other financial institutions will likely look to large-scale technology-stack providers such as Fiserv, FIS, or Vela to provide a common solution.

### **Building a stablecoin infrastructure**

Given the multiple tailwinds described above, we believe the moment for financial institutions to pursue the stablecoin opportunity is now. Once they choose how to participate, financial institutions should start building the appropriate stablecoin infrastructure. There's no time to lose, given the time it takes to acquire talent and build infrastructure. They should consider taking the following steps:

- **Acquire talent.** Many financial institutions lost digital-assets expertise in recent times after several years of lower demand for anything related to crypto. The talent shortage leaves them especially vulnerable as demand for digital assets now accelerates. Financial institutions will require talent that understands blockchain technology, can assess digital asset risks, and can develop new applications requiring familiarity with smart contracts.

- **Build capability.** The technological capability required is in especially short supply, requiring enterprises either to move quickly to partner with existing players or to start building now.
- **Educate executives.** In our experience, boards and key decision-makers of financial institutions often do not understand the evolving landscape of stablecoins. Bringing such individuals up to date is key to making well-informed decisions.
- **Engage with regulators.** Engaging proactively with relevant local and national regulators could be informative in a space with fast-moving compliance and governance requirements (for example, at both the federal and state levels).
- **Establish a market blueprint.** Lessons learned from historical attempts to scale adoption of tokenized cash indicate that a “build it and they will come” mentality is unlikely to succeed. Instead, marketing a compelling and differentiated value proposition (which will differ according to stakeholders) is key. To achieve such a value proposition, financial institutions should identify the most promising opportunities and then test demand for such applications with customers and stakeholders. Assembling a coherent blueprint for the path to market is equally important. For expediency, some incumbent financial institutions are striking partnerships with Web3 fintechs, especially for critical components such as wallets, custody, liquidity, transaction monitoring, and market indices.

## **The signs of a maturing market**

Based on today's issuance volume, tokenized cash has yet to show its true potential to transform global payments. Nonetheless, as discussed above, stablecoins may be at an inflection point. But what are the signs of a maturing market? We identify six key markers for growth that require close monitoring:

- **Escalating expectations from end users (for instant global payments).** Much like the migration to digital and app-based banking and payments, there will be an increase in consumers' expectations that global payments

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should be as quick and easy as a swipe of a finger. Consistent with this thesis, the competitive advantage for early movers could be significant and trigger accelerated migration among fast followers. There is potential for groundbreaking announcements from incumbents as well as challengers.

- **Regulatory clarity, especially in developed markets.** The next few months will clarify whether the administrations in developed markets are serious about enabling widespread use of stablecoins. Passage of the GENIUS Act in the United States would be one such sign, but there are equivalents in other markets. Other geographies (for example, the European Union's MiCA) already have or are establishing regulatory regimes that could enable safe and prudent stablecoin use.
- **High-profile investments and M&A activity.** As the use of stablecoins grows, early leaders will attract investors. Several players may apply for IPOs (Circle has already launched<sup>27</sup>), and challengers may make bold acquisition moves (for example, Stripe's recent acquisition of Bridge and Privy). In addition, private capital may target acquisition of operating stakes in some of the early leaders in the Web3 space.
- **Incumbent responses.** Given the potential for stablecoins to upend the existing payment and deposit infrastructure, we expect many incumbents to respond rapidly, including through the creation of asset-tokenization platforms. For example, several US banks are discussing jointly issuing a stablecoin.<sup>28</sup>

- **Availability of essential infrastructure.** To function efficiently, users of stablecoins must have access to critical infrastructure, including seamless on and off ramps, digital wallets (from which to send and receive transactions), and secure custody (storage of private keys). Development of these kinds of services will likely be another sign of increasing market maturity.
- **Increasing transaction volumes.** Perhaps the most important signpost would be tokenized cash-transaction volumes outstripping use cases such as crypto trading, reflecting increased acceptance and adoption in commercial and capital markets. A further doubling of stablecoin circulation in the next 12 months could be a strong indicator of increasing market maturity.

Those institutions creating digital asset units should consider establishing a scorecard to monitor the evolution of these key signs. Such a scorecard would comprise announcements from incumbents and challengers, the passing of legislative orders, and major IPOs.

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From evolving regulation to improving security technology, growing consumer expectations, and legitimate scaling of solutions, the emergence of stablecoins as a serious contender for global payments has spurred a paradigm shift in the delivery of financial services. How incumbent financial institutions respond and innovate could define their relevance in the globalization of instant value exchange and how value is stored. The way in which they engage could lay the foundation for development of further use cases of digital assets in the near future.

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<sup>27</sup> "Circle launches initial public offering," Circle, May 27, 2025.

<sup>28</sup> "Some US banks explore venturing into crypto with joint stablecoin, WSJ reports," Reuters, May 23, 2025.

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